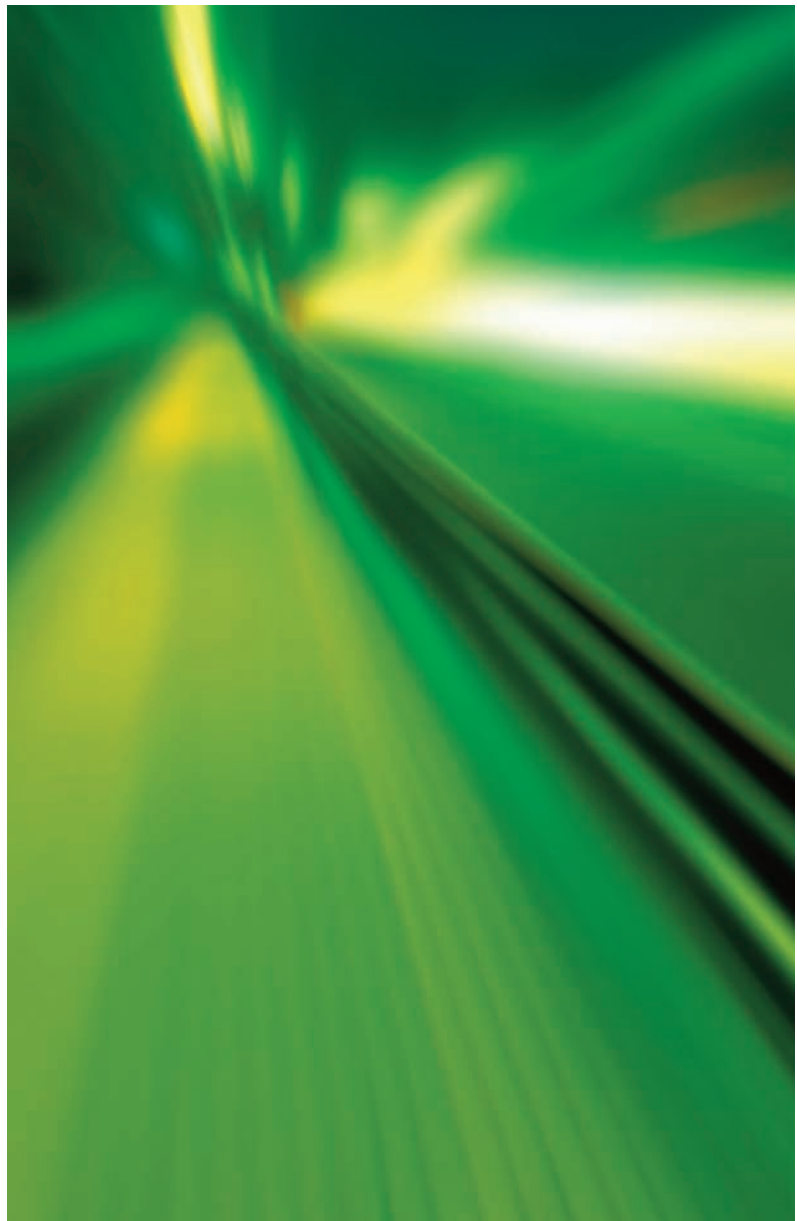


GOING GREEN

ENERGY PRICES, CLIMATE CHANGE, PUBLIC RELATIONS CONSIDERATIONS AND ECONOMIC OPPORTUNITY ARE DRIVING THE REAL ESTATE INDUSTRY TOWARD ENVIRONMENTALLY FOCUSED – OR GREEN – CONSTRUCTION AND RETROFITTING TECHNIQUES. THE INSURANCE MARKETPLACE IS REACTING, AND INSURANCE BUYERS NEED TO BE AWARE OF EMERGING RESPONSIBILITIES AND OPPORTUNITIES.

The world is going green. The signs are everywhere.

- Going green pays. Owners can save 90 cents per square foot annually, on average, and earn back their investment in 24 to 30 months.¹ One Midwestern company spent \$73,000 upgrading its global headquarters and reported an annual net savings of \$137,320.²
- The cost of going green is decreasing, as more builders and contractors compete to service the growing demand. The additional cost of green construction is now under 2%, insignificant compared to the benefits.³
- REITS are going green: 41% are actively pursuing energy efficiency and green upgrades and 27% plan to do so.⁴
- Hotel chains are going green. Here is a sampling of comments from top hotel executives at a recent industry event:
 - “I absolutely believe this is here to stay.”
 - “As time goes on the investment community is becoming more sensitive to this issue.”
 - “You better build it green or convert it. Because if you don’t the customers won’t come.”⁵



- From San Francisco to New York, municipalities are beginning to mandate green construction.⁶
- Real estate brokers, lawyers and marketing executives are seeking accreditation as experts in green construction in an effort to attract and retain clients.⁷
- Improved air quality in green buildings is becoming a key attraction for tenants.⁸
- The president of a national industry association credits improved air quality with increasing productivity in green buildings.⁹ Many employers have said that improved air quality also reduces absenteeism.
- Greening their portfolio is a priority for 82% of real estate professionals and nearly two-thirds of real estate companies are actively spending money on green initiatives.¹⁰
- An international tenant advisory group has launched a Sustainable Real Estate Practice to advise tenants on green practices.¹¹
- As the U.S. focuses increasingly on reducing carbon emissions, the real estate industry will likely be called on to respond, since buildings account for 30% of U.S. carbon emissions.¹²

TAKING THE LEED

› What does it mean to go green? In the U.S., green construction means receiving LEED® certification.

LEED standards were developed by the U.S. Green Building Council (USGBC), a non-profit group that certifies buildings on a four-level system (Certified, Silver, Gold and Platinum). LEED certification is available for all building types, including new construction and major renovations, from offices to schools to homes. LEED standards cover not only building materials and design but also building management with regard to such activities as recycling, waste disposal and energy and water use. According to USGBC, three billion square feet of construction space has achieved some form of LEED certification.

LEED-certified buildings deliver savings in several ways. Here are some estimates

- Energy usage: 30-50% savings
- Carbon emissions: 35% savings
- Water emissions: 40% savings
- Solid waste: 70% savings¹³

Green construction techniques are in many cases familiar – efficient HVAC systems, energy usage, plumbing and electric fixtures, along with recycling. Some techniques are more unusual. Green construction frowns on carpets and paints that use volatile organic compounds. Ozone-depleting substances are out. Green buildings will often be topped by a vegetative roof (dirt, grass and other plant life) that acts as superior insulation and add some actual green to the building site.

› One of the strongest benefits of green construction is in public relations. Reputation is everything in the highly competitive real estate and hotel markets, and environmental awareness and action will usually play well with real estate tenants and upscale hotel guests.

THE INSURANCE INDUSTRY REACTS

The insurance industry is beginning to respond to this paradigm shift, and early reactions indicate that insurers like the trend. Carriers are beginning to offer products that take into account the added time and expense required to build or rebuild green. And even more telling, some are beginning to offer discounts to green buildings.

One of the first to offer insurance products acknowledging the green construction movement was Fireman's Fund. The company is offering savings up to 5% for LEED-certified buildings. Fireman's Fund believes that green buildings are better risks and as a result will have fewer losses due to electrical fires, plumbing problems, etc. The Green-GardSM suite of products includes Green Upgrade Coverage, which covers the cost of replacing standard systems and materials with green ones after a loss. In the event of a covered total loss, the policy would pay the cost to rebuild, from top to bottom, as a green certified building. Green Certified Building Coverage provides protection for vegetative roofs, alternative water system and green power generating equipment, and covers the cost to hire a LEED-accredited professional to oversee the repairs as well as loss of income incurred through the use of alternative power-generating equipment. Building Commissioning Coverage provides the cost of hiring a commissioning engineer to ensure that building systems (HVAC, electric and plumbing) operate at peak performance and alignment.

In March 2008, Lexington Insurance Company announced Upgrade to GreenSM Commercial, a product that responds to losses in certified and non-certified buildings. In the event of a total loss, LEED-certified insureds would be able to upgrade to the next LEED certification level upon reconstruction. Non-certified buildings could rebuild to LEED Silver certification. In the event of a partial loss, Upgrade to Green Commercial encourages the use of ENERGY STAR[®]-qualified office equipment, including energy-efficient heating, cooling and lighting systems; green interior building components such as paints, primers, adhesives, coatings, partitions, cabinets and furniture with reduced emissions of organic compounds; and furniture and floorings made of renewable and sustainable materials such as bamboo and eucalyptus. The product also allows customers to retain LEED-accredited professionals to help in reconstruction, and will pay registration and certification fees if the building needs to be recertified by the USGBC.

In the area of Pollution Legal Liability, AIG Environmental has a program where discounts of up to 10% are available to LEED-certified buildings.

Travelers and ACE have also announced new green-focused products with similar coverage enhancements. We expect other carriers to follow.

On the Casualty side, green is also an important consideration. LEED certification may help companies avoid liability for poor indoor air quality and can help reduce Workers' Compensation claims.

WHAT TO DO

- **With the pressure rising on companies in the real estate and hotel sector to follow the green path, insurance buyers must consider the insurance products that can help them get there.**

They should also examine replacement cost values, as the cost of building or rebuilding to LEED standards can be significant. Building green can take extra time, so Time Element limits need to be examined as well. As municipalities move toward green construction mandates, insurance buyers will also need to look at their limits under the Increased Cost of Construction endorsement.

The number and range of marketplace solutions to these issues, meanwhile, are growing.

It may not be easy being green, but it's getting easier every day in the real estate and hotel industry.

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